



**DEFENSE CONTRACT AUDIT AGENCY**  
**DEPARTMENT OF DEFENSE**  
8725 JOHN J. KINGMAN ROAD, SUITE 2135  
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PAS 730.3.A.A.102

January 28, 2003  
03-PAS-009(R)

**MEMORANDUM FOR REGIONAL DIRECTORS, DCAA**  
**DIRECTOR, FIELD DETACHMENT, DCAA**  
**ASSISTANT DIRECTOR, OPERATIONS, DCAA**

**SUBJECT:** Audit Guidance on Obtaining Representations from Technical Specialists Regarding their Independence

**Summary**

Effective immediately, all requests for technical evaluation reports should be made using the pro forma letter in Enclosure 1. In accordance with the Government Auditing Standards (GAGAS), Amendment No. 3, Independence, Section 3.14, DCAA auditors must provide the technical specialist with the GAGAS independence requirements and obtain representations from the specialist regarding his/her independence from the activity or program under review. When DCAA requests a technical evaluation, the technical specialist should complete the Independence Statement and submit it to DCAA along with the technical report.

**Background**

MRD 03-PAS-001(R), dated January 2, 2003, announced that the General Accounting Office (GAO) issued Government Auditing Standards Amendment No. 3, Independence, which was effective January 1, 2003. The requirements of the Amendment and DCAA's additional implementation guidance have been incorporated into sections 2-203 and 2-S103.1 of the January 2003 edition of the Contract Audit Manual (CAM). The July 2003 edition of CAM Section 2-203 and Appendix D, Section D-200 will incorporate the guidance in this memorandum.

**Guidance**

Technical Evaluations from DCMA

Generally DCAA requests for technical evaluations regarding Department of Defense (DoD) procurements are performed by the Defense Contract Management Agency (DCMA.) Therefore, DCMA and DCAA representatives worked together to develop these procedures to assist DCAA auditors in obtaining representations from DCMA technical specialists regarding their independence from the activity or program under audit. See DCMA's memorandum to its affected employees in Enclosure 2.

Subject: Audit Guidance on Obtaining Representations from Technical Specialists Regarding their Independence

Requests for technical evaluation reports should be made using the pro forma letter in Enclosure 1. The wording in this letter provides the technical specialist with the GAGAS independence requirements and requests a representation from the specialist regarding his/her independence from the activity or program under review.

The auditor should contact the technical specialist if an Independence Statement is not received along with the requested technical report. When the auditor receives a technical report not requested by DCAA, the auditor should obtain an Independence Statement from the technical specialist if, after reviewing the report, the auditor concludes that the results of the evaluation should be incorporated into the audit report. If the auditor is unable to obtain the Independence Statement from the technical specialist or if the specialist has an impairment to independence, the auditor should not use the work of the specialist. The auditor should contact the requestor to discuss this situation and inform the requestor that our report will not incorporate the results of the technical evaluation. If the procurement contracting officer still requests that the results of the technical evaluation be incorporated into the audit report, the auditor may do so only if the auditor was unable to obtain the Independence Statement from the technical specialist and the following conditions are met:

- the auditor has no reasons to question the specialist's independence; and
- the above circumstances are addressed in the scope section of the audit report with a statement indicating that the auditor will continue his/her efforts to obtain the Independence Statement and that a supplemental report will be issued if it is subsequently received and negotiations have not been concluded.

#### Technical Evaluations from Organizations Other Than DCMA

Auditors should apply the above (DCMA) procedures when requesting technical evaluation services from any external organization. Field audit offices (FAOs) that generally request technical evaluations from local government components other than DCMA, e.g., the Supervisor of Shipbuilding (SUPSHIP), should work with their local technical organization to develop a process consistent with the above procedures. DCAA financial liaison advisors (FLAs) will be informing the buying commands with which they work of these procedures. Auditors who have difficulties obtaining independence representations from non-DCMA organizations should contact the cognizant FLA for the organization performing the technical evaluation.

#### **Closing Remarks**

FAOs and FLAs should coordinate with their local DCMA or other contract management offices (CMOs) to ensure that they are familiar with these procedures. FAOs and FLAs may offer to share the training materials on auditor independence provided in MRD 03-PAS-001(R) or invite CMO personnel to DCAA training sessions on independence. FAOs should direct any questions or concerns on this subject to their regional office. Regional offices and Headquarters

Subject: Audit Guidance on Obtaining Representations from Technical Specialists Regarding their Independence

Audit Liaison Division (OAL) may address their questions to Ms. Maria A. Davey, Program Manager, Auditing Standards Division (PAS) at 703-767-3274 or e-mail address, dcaa-pas@dcaa.mil.

/Signed/

Robert DiMucci  
Assistant Director  
Policy and Plans

Enclosures:

1. CAM Appendix D - Figure D-2-1 (Revised)
2. DCMA Tasking Memo No. 03-121

DISTRIBUTION: C

**CAM APPENDIX D - FIGURE D-2-1 (REVISED)**  
**PRO FORMA REQUEST FOR TECHNICAL ASSISTANCE**  
**LABOR EXAMPLE**

TO: Administrative Contracting Officer [or Other Audit Requestor]

SUBJECT: Request for Technical Specialist Assistance, Proposal \_\_\_\_\_

As part of our audit of the subject price proposal, we have examined the estimating rationale used in calculating proposed direct manufacturing labor hours. In estimating this cost element, the contractor used plant-wide labor standards adjusted by a productivity factor resulting from experience on the XYZ contract. The contractor then judgmentally applied a 20 percent complexity factor to reflect the impact of this newly proposed product. We request that an engineer review the reasonableness of the following items:

1. The proposed 20 percent complexity adjustment factor.
2. The benefit of past learning on the proposed labor estimates. The auditor plans to apply a learning curve technique.
3. The proposed in-house labor standards for recurring manufacturing labor for:
  - a. Item 1 --- Set up 1.097; Run 453.301
  - b. Item 2 --- Set up 212.5; Run 63.511
  - c. Item 3 --- Set up 312.4; Run 75.551

We further request that the technical specialist's review results be furnished to us as soon as possible for incorporation into our audit. Our audit report is due by \_\_\_\_\_. If the technical specialist's review results cannot be provided by \_\_\_\_\_, we request that the audit report due date be revised to permit consideration of the technical findings.

Government Auditing Standards, Section 3.14, states that "in using the work of a specialist, auditors need to consider the specialist as a member of the audit team and, accordingly, assess the specialist's capability to perform the work and report results impartially. In conducting this assessment, auditors should provide the specialist with the GAGAS independence requirements and obtain representations from the specialist regarding his/her independence from the activity or program under audit. If the specialist has an impairment to independence, the auditor should not use the work of that specialist." In this regard, we are providing the GAGAS independence requirements in the enclosure to this request and are requesting that the attached Independence Statement be submitted along with your report.

Should you have any questions regarding this request, please contact Mr. \_\_\_\_\_, Auditor, at telephone number (000) 000-0000 or e-mail address \_\_\_\_\_.

\_\_\_\_\_,  
Branch Manager

Enclosure

Government Auditing Standards  
Independence Requirements

Personal Impairments

- You have an immediate family or close family member who is a director or officer of the contractor, or is an employee of the contractor, and is in a position to exert direct and significant influence over the contractor or the program under audit/evaluation;
- You have a financial interest that is direct, or is significant/material though indirect, in the audited/evaluated contractor or program;
- You are evaluating an entity's program in which you made determinations or made program management decisions on behalf of the entity;
- You performed professional and/or technical services for the contractor affecting the program under evaluation;
- You have preconceived ideas or biases toward individuals, groups, organizations, or objectives of a particular program that would disable you from performing a fair evaluation.
- You are seeking employment with the contractor during the conduct of the evaluation.

External Impairments

External impairments to independence occur when you are deterred from acting objectively and exercising professional skepticism by pressures, actual or perceived, external to the organization, such as from management and employees of the entity under evaluation or oversight organizations.

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Independence Statement

SUBJECT: Request for Technical Specialist Assistance, Proposal \_\_\_\_\_

The analyst(s) was (were) free from any personal and external impairments that would preclude independent evaluation of the subject.

Specialist Name: \_\_\_\_\_  
Specialist Position Title: \_\_\_\_\_  
Organization: \_\_\_\_\_  
Date: \_\_\_\_\_

**Tasking Memo No. 03-121**

**Memorandum For** Director DCMAE, DCMAW and Cdrs DCMA CMOs

**Subject:** Independence Requirements for Technical Specialists Supporting DCAA Audits

**Date:** January 15, 2003

**Suspense Date:** January 3, 2003

**Target Audience:** CMO personnel whose work product will be incorporated into a DCAA audit report and their supervisors

**Requirement(s):**

- On January 25, 2002, GAO issued Government Auditing Standard No. 3, "Independence," requiring the DCAA auditor and any technical specialist providing support to an audit to be free both in fact and appearance from personal and external impairments to independence. The standard can be accessed at <http://www.gao.gov/> under Other Publications, click on "The Yellow Book".
- This standard, effective January 1, 2003, requires the auditor seeking technical support to obtain representations from the technical specialist that s/he is independent from the activity or program under audit. An example request for technical assistance containing the requirements of the new standard and the independence statement to be completed by the technical specialist and returned to DCAA is provided in Attachment 1.\*
- A policy change will be issued to incorporate this requirement into One Book chapters affected by this requirement.
- CMO personnel whose work product will be incorporated into a DCAA report and their supervisors will:
  - Familiarize themselves with the requirements of the standard and the statement sheet. Background information is provided in Attachment 2.\*
  - Provide the independence statement to DCAA along with a technical report.
- It is estimated that familiarization with this process will take approximately 1 hour.
- PLAS Process code 124B and program code NTR02 are appropriate for the familiarization activity required by this tasking.

**Point of Contact for Further Information:**

Joan Sherwood (mailto:joan.rsherwood@dcma.mil /DCMA-OCB/703-428-0982

**Signature:**

ROBERT W. SCHMITT, Executive Director, Contract Management Operations

\* To avoid duplication of information, the attachments referred to in this memorandum have been omitted in this MRD.